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THE UNITED STATES COAST GUARD ACTIVITY BUDGET

by

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Prepared for

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Washington, D. C.

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PREFACE

The period since World War II has witnessed profound changes in the budgeting for and administration of appropriated funds by the United States Coast Guard. The improvements that have been effected are the result of a continuing cooperative effort on the part of cognizant governmental agencies and the Congress. The configuration and content of the Coast Guard budget for fiscal year 1961 give embodiment to these improvements.

It is the purpose of this paper to present and analyze what has been accomplished by the Coast Guard in the broad area of financial management, pointing out along the way some of the problems that have been solved and some that still remain.

Acknowledgement for suggestions and technical guidance is gratefully made to LCDR Robert T. LoForte, USCG, Assistant to the Chief, Budget and Cost Analysis Division, U.S. Coast Guard Headquarters, and to Mr. Marvin P. Hopkins, Chief, Cost Analysis Section.

CHAPTER I

THE NATURE OF THE UNITED STATES COAST GUARD¹

Historical Background

The United States Coast Guard is an armed service charged with multifarious peacetime duties. The present world-wide organization with widely divergent responsibilities evolved through a series of departmental reorganizations characterized by logical mergers and amalgamations of complementary functions.

The forerunner of the Coast Guard was the United States Revenue-Marine requested by Alexander Hamilton in his capacity as the first Secretary of the Treasury. In 1789 Congress authorized the establishment and support of ten cutters for the purpose of supporting the tariff, which was the primary source of revenue for the new nation.² From this modest beginning the United States Revenue-Cutter Service, as it was later to be known, developed with the growth of the Union by fits and starts from these ten small schooners in 1790 to a fleet of some thirty ocean-going steamships in the early years of the twentieth century.

¹Aside from the brief historical content, the further intent of this chapter is to impart some conception of the diverse functions performed by the Coast Guard thereby laying the groundwork for later discussions of budgetary problems.

²U.S., Statutes at Large, I, 145, 175.

A strong sense of tradition grew in this first 125 years, and many new duties were vested in the Revenue-Cutter Service. In addition to enforcing customs laws, by 1915 the service was as a matter of routine performing such varied tasks as rendering assistance to distressed mariners, enforcing conservation laws and international treaties, destroying derelicts, directing marine traffic, and patrolling the ice hazard areas of the North Atlantic and the Bering Sea. The Revenue-Cutter Service had in effect become the national arm for maritime law enforcement and marine safety.³

In 1915 Congress passed an Act To Create the Coast Guard. This act combined the Revenue-Cutter Service and the Life-Saving Service into one military organization to be called the Coast Guard.⁴ These services had previously been administered as separate bureaus in the Treasury; however, there had been a good deal of cooperation between the two in the past, and the marriage was consummated with no great difficulty. As a result, the Coast Guard came into being with a strategically located network of coastal stations to complement the efforts of its sea-going units in the protection of life and property on the high seas and navigable waters of the United States.

The Lighthouse Service, another associated but independent agency, was merged with the Coast Guard in 1939.⁵ Through this

³Stephen H. Evans, CAPT, USCG, The United States Coast Guard, 1790-1915, A Definitive History (Annapolis: The United States Naval Institute, 1949), passim.

⁴U.S., Congress, An Act to Create the Coast Guard, Public Law 239, 63rd Cong. 2d Sess., 1915.

⁵U.S., Congress, Reorganization Act of 1939, Plan II, Public Law 19, 76th Cong. 1st Sess., 1939.

amalgamation, the Coast Guard became responsible for operation and maintenance of aids to navigation. At the present time aids to navigation include lighthouses, buoys, daymarks, radio beacons, fog signals, radar beacons, and a world-wide system of loran chains.

More diversification of responsibility came about by executive order in 1942 when President Roosevelt as a wartime measure transferred the Bureau of Marine Inspection and Navigation to the Coast Guard.⁶ The attendant regulatory responsibilities over the United States merchant marine were permanently vested in the Coast Guard in 1946. This same year the Coast Guard was designated as the coordinating agency to meet United States obligations to the International Civil Aviation Organization for the protection of international civil aviation over water areas. Discharge of this responsibility is seen in the ocean station program and in the recent Atlantic Merchant Vessel Reporting System. In this same vein the Coast Guard is also charged with coordinating national search and rescue effort over maritime regions.

Duties and Responsibilities⁷

The product of the foregoing evolutionary process is an integrated agency charged with three main areas of responsibility.

First, the Coast Guard is a safety agency responsible for the protection of life and property at sea. To this end the

⁶U.S., Executive Order No. 9042, Redistribution of Maritime Functions, February 28, 1942.

⁷U.S., Treasury, Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1959 (Washington: U.S. Government Printing Office, 1960), pp. 144-59.

Coast Guard operated almost 200 sea-going units, a myriad of smaller craft, close to 150 aircraft, and about 200 strategically located operational shore units. Besides fulfilling search and rescue obligations, these units maintain over 40,000 aids to navigation, man ocean stations, inspect merchant vessels, break ice, patrol North Atlantic and Bering Sea ice areas, and furnish flood relief.

As an enforcement agency charged with enforcing federal laws on the high seas and navigable waters of the United States, the Coast Guard regulates the design, construction, and operation of the United States merchant marine; administers the national port security program; and, as required, provides marine support to other enforcement agencies in such areas as customs, immigration, conservation, and quarantine.

Lastly, the Coast Guard is a military service which operates under the Navy Department at such times as the President may direct. A state of military readiness must be maintained accordingly. Military operations have traditionally included escort duty, port and coastal security, and amphibious operations.

Organization

Although the organization of the Coast Guard parallels that of the Navy to a great extent, the mission of the service makes the Coast Guard unique in many respects. The great majority of floating units are small, widely dispersed, and multipurpose. The versatile buoy-tender, for instance, besides doing what she is designed for, will also be found breaking ice, provisioning isolated units, rendering assistance to distressed mariners,

fighting waterfront fires, and attempting to maintain the required degree of military proficiency. Similarly, shore units are multi-functional, widely dispersed, and generally small in size. The organizational complex of the Coast Guard requires a large proportion of warrant officers and places a good deal of responsibility and authority in its warrant officer corps as well as in the more senior enlisted grades.

The administrative organization of the Coast Guard consists of Headquarters in Washington, twelve district offices throughout the country, section offices in some of the more remote districts, and a large number of group offices serving local concentrations of small operating units.⁸

The district commander directs intradistrict operations. Interdistrict operational control is provided through Atlantic and Pacific Area Commanders. When the magnitude of the operation requires, area commanders coordinate the efforts of operating units from the several districts included in the area.⁹

⁸U.S., Coast Guard, Organization Manual, CG-229 (Amend. 19; Washington: U.S. Coast Guard, 1950), pp. 1-3.

⁹Ibid., pp. 4-1 through 4-4.

CHAPTER II

EVOLUTION OF THE COAST GUARD ACTIVITY BUDGET

The Ebasco Report

Some time after the rapid demobilization in the wake of World War II it became apparent that the Coast Guard would never again return to its relatively uncomplicated prewar status. The post-war status was rather ill-defined in that the Coast Guard was performing, more or less by default, certain functions left over from the war years. These functions, for which no direct statutory authority existed, were the ocean station program, the loran station program, the high frequency direction finder network, and aids to navigation in support of national defense.¹ Congress had sanctioned these functions by appropriating funds from year to year for their support, but there could be no comprehensive long range planning on such a basis.

As a first step in delineating the role of the Coast Guard in the post-war era, Congress provided

that not to exceed \$100,000 of the appropriation for General Expenses, Coast Guard, 1948, shall be available for defraying, on a contract basis or otherwise,

¹Ebasco Services Incorporated, Study of United States Coast Guard (New York: Ebasco Services Inc., 1948), p. 10.

the expenses of a study of the administrative, management, and fiscal policies and affairs of the Coast Guard, such study to be made by persons or organizations as may be designated by the Secretary of the Treasury and the Chairmen of the Committees on Appropriations of the House of Representatives and the Senate.²

Accordingly, the talents of Ebasco Services Incorporated of New York were secured, and a detailed survey of the Coast Guard was made between September 1947 and January 1948.

The general purpose of this survey was to review the functions, policies, operations, and procedures of the Coast Guard in carrying out its duties and responsibilities to bring to the public the greatest degree of service at the lowest possible cost. In the words of the charter signed by the three designating officials:

It is expected that this study will result in (a) a definition of the proper role of the Coast Guard in the governmental structure; (b) a clear statement of the general policies required to carry out the responsibilities of the Coast Guard; (c) a comprehensive examination of the administrative, management, personnel, and fiscal problems of the Coast Guard and your concrete suggestions for the solution of such problems; (d) specific recommendations relative to improvements in procedures, methods, organizations, and operations; and (e) a definite forecast of potential increases in efficiency, economy, and service to the public.³

The final report submitted by Ebasco contained 193 specific recommendations. Several of these have a direct bearing on the budgetary aspects of financial management and, as shall be pointed out, parallel to a great extent the recommendations of the

²U.S., Congress, Second Supplemental Appropriation Act, 1948, Public Law 299, 80th Cong., 1st Sess., 1947.

³Letter from Secretary of the Treasury, Approved by the Chairmen of the Committees on Appropriations of the House of Representatives and the Senate, to Ebasco Services Incorporated, dated September 17, 1947.

first Commission on Organization of the Executive Branch of the Government, which was conducting its broader study concurrently.

For the purposes of this study the following Ebasco recommendations are significant:

1. That the Congress give the Coast Guard a complete and concise mandate setting forth all its responsibilities, functions, and sphere of activities coupled with specific direction and authority to establish and maintain a base operating plan and program as a broad pattern for operations for a number of ensuing years.

2. That the Coast Guard organize itself functionally to discharge competently its assigned responsibilities by classifying all activities in such a manner that basically similar kinds of activities are grouped together.

3. That the Coast Guard establish at Headquarters a chief accountant to supervise the accounting activities and develop proper methods and procedures.

4. That the Coast Guard adopt and install accounting procedures and methods which will record accurately costs of all operations and of all personnel, supplies, and materials used in the performance of all elements of each activity within each function.

5. That the Coast Guard adopt, install, and use continuously a system of control and inspection which will supply comparisons and cost analyses; standards of inspection and reports of compliance with operating instructions; data on required man-power, equipment, and materials; and which will relate current costs, results, and requirements to long range objectives.

6. That costing be done on a functional basis and determination be made of the flow of money into man-power, operation of equipment, maintenance of equipment and facilities, replacement and supply of new equipment and facilities, and that the overhead burden be appropriately charged to each element of the several major functions.⁴

The validity of Ebasco's findings and recommendations was substantially confirmed by similar findings and recommendations on the part of the first Commission on Organization of the Executive Branch of the Government. In the words of the Commission's concluding report, fiscal management in the federal government suffers from a budget process weak at the departmental level, an incomprehensible budget document, an outmoded appropriation structure, an ineffective apportionment system, an intermingling of operating and capital expenditures, and the lack of any formal accounting plan.⁵ The commission recommended strong measures to correct these faults. Two significant recommendations were that agency accounts be kept on the accrual basis to allow development of an apportionment system providing effective executive control over the spending of appropriations, and that the budget document be completely recast along the lines of work programs and functions.⁶

⁴Ebasco Services Incorporated, Study of United States Coast Guard (New York: Ebasco Services Inc., 1948), passim.

⁵The Commission on Organization of the Executive Branch of the Government, Concluding Report (Washington: U. S. Government Printing Office, 1949), pp. 13-14.

⁶The Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting (Washington: U. S. Government Printing Office, 1949), pp. 8, 43-44.

Implementation of Recommendations

Implementation of such Ebasco recommendations (and Hoover Commission recommendations) as were concurred in and felt to be feasible was rapidly undertaken. The Eighty-first Congress in 1949 revised, codified, and enacted into law Title 14 of the United States Code, entitled "Coast Guard." This act redefined the service as a branch of the Armed Forces of the United States; confirmed it in its general functions of marine safety, maritime law enforcement, and military readiness to operate as a service in the Navy upon declaration of war or when the President directs; and reiterated and clarified its specific duties, responsibilities, and authority.⁷ With the role of the Coast Guard now clearly established, the stage was set for internal managerial improvements.

The Coast Guard heartily concurred with the recommendations for a functional cost accounting system on the accrual basis. In fact, there had been some elementary cost accounting carried on at Headquarters before the Ebasco survey was undertaken. The Coast Guard supported this recommendation with a specific proposal for a costing system. The system, as proposed to the Treasury, would provide monthly cost performance reports on each operating unit. The operating units would be categorized as either Assistance and Law Enforcement Units or Aids to Navigation Units. Summarizations of these reports would be made by classes of units within each category. Cost performance would also be reported for administrative support and operational control units. Since

⁷U.S., Congress, Title 14, U.S. Code, Codification and Enactment into Law, Public Law 207, 81st Cong., 1st Sess., 1949.

the costs of these could not be assigned directly to either operating function, they would be redistributed as operating overhead to the operating functions. These overhead costs would also be summarized by classes of units. Further overhead expense would accrue from certain administrative programs not allocable on a unit basis. Final summarization would show direct costs by nature of expense for major functions and subfunctions, allocation of overhead to each function, and additional capital expense for plant replacement and improvement.⁸

As a result of another specific recommendation, a chief accountant⁹ in grade CAF-15 was engaged on November 1, 1948 as an advisor to the Commandant. The new accounting advisor was specifically charged with developing and maintaining an effective cost accounting system for the Coast Guard. The initial Coast Guard proposal outlined above was shelved in anticipation of developments under the tutelage of the new specialist.

Over the next several years a new accounting system was developed which was similar in several basic respects to the earlier Coast Guard proposal. The new system, approved by the Comptroller General on December 29, 1951, provided for the integration of the accrual basis of accounting with the federal budgetary process in terms of control over obligations, improvement in

⁸Memorandum from Commandant, U.S. Coast Guard, to Assistant Secretary of the Treasury, Subj: Attitude of the Coast Guard with respect to Ebasco Recommendations Finance and Supply Nos. 21 and 22, April 13, 1948.

⁹T. Jack Gary; CPA of Virginia, eight years in municipal accounting systems with T. Coleman Andrews & Co., seven years with the National Housing Agency and Public Housing Agency, Executive Assistant and Research Director for the first Hoover Commission Accounting Project.

budgetary and accounting classifications, and development of classified costs reconciled with the obligation basis. The salient features of the new system were:

1. Decentralization of accounting operations under appropriate centralized control.
2. Adoption of accrual accounting methods.
3. Development of adequate cost data, by programs, integrated with the general system of accounts.

It was expected that the new accounting system would generally simplify accounting procedures, improve accounting control, and improve information for managerial purposes.¹⁰

In conjunction with the installation of the new accounting system, the financial management branch at headquarters was reorganized to clarify accounting performance under the new system. The organization of the Office of the Comptroller today (Figure 1)* is substantially the same as when reorganized in 1950.

Governmental Cooperation

Particularly throughout initial developmental period for the new accounting system, much interest, encouragement, and assistance was forthcoming from the Bureau of the Budget, the Treasury Department, and the General Accounting Office. These three governmental agencies had in 1948 initiated a cooperative effort called the Joint Program to Improve Accounting in the Federal Government.¹¹ The aim of this loose confederation was a

¹⁰U.S., Bureau of Accounts, Fiscal Service, Report on Accounting Developments in the Treasury Department (Washington: Treasury, 1955), pp. 16-17.

¹¹The Joint Program was later given legal status by the Budget and Accounting Procedures Act of 1950.

*Infra, p. 19.

government-wide cooperative undertaking to expand and redirect the accounting function to the increasingly complex purposes of government it should serve. The project being undertaken by the Coast Guard was exactly within the purview of the joint program.

The blessing of the Congress is, of course, a requirement for the success of any governmental accounting improvement effort. That the Coast Guard had the required degree of cooperation is evidenced by the history of congressional actions that have been favorable to Coast Guard endeavors throughout the period under consideration.

In reporting the Supplemental Treasury-Post Office Appropriation Bill, 1949, The House Committee on Appropriations made the following pronouncement:

The present program seems to have the cart before the horse; i.e., the persons now charged with responsibility for operating the present inadequate accounting system are attempting to formulate a new accounting system contemplating the employment at a later date of trained accounting personnel to operate it.

The logical approach would be first to employ a competent accountant and charge him with the responsibility for developing the system. Therefore, the committee very strongly recommends that a competent trained accountant be brought into the organization at the earliest practicable date. Recognizing the fact that an adequate management organization at headquarters is necessary if the Coast Guard is to be efficiently and economically operated, the committee has approved the full amount of the estimate, which is an increase of a little more than 10 percent over the current year, and within this amount there will be adequate funds available to establish and maintain an accounting and fiscal system geared to the requirements of the Coast Guard of 1948 rather than the Coast Guard of 1898.¹²

¹²U.S., Congress, House, Committee on Appropriations, Report to Accompany H.R. 6758, Report No. 2089, 80th Cong., 2d Sess., 1948, p. 5.

The following year Congress redefined the role of the Coast Guard in Title 14, United States Code, as was covered earlier in this chapter.

Major changes in the Coast Guard appropriation structure by Congress were instrumental in the streamlining of Coast Guard accounting and budgeting operations. Prior to fiscal year 1951 funds for the Coast Guard were provided through the following appropriations:

- Salaries, Office of the Commandant, Coast Guard
- Pay and Allowances, Coast Guard
- General Expenses, Coast Guard
- Civilian Employees, Coast Guard
- Establishment and Improvement of Aids to Navigation
- Acquisition of Aircraft, Vessels and Shore Facilities
- Retired Pay, for Lighthouse Service, Coast Guard

The Coast Guard section of Treasury Department Appropriation Act, 1951, was in accordance with the request as submitted in that funds were received through only three appropriations:

- Operating Expenses
- Acquisition, Construction, and Improvements
- Retired Pay¹³

This act reduced the Coast Guard appropriation structure to its simplest form and, by combining four earlier appropriations (Salaries, Office of the Commandant; Pay and Allowances; General Expenses; and Civilian Employees) into one (Operating Expenses),

¹³U.S., Congress Treasury Department Appropriation Act, 1951, Public Law 759, 81st Cong., 2d Sess., 1950.

vastly simplified the reconciliation of cost data with the appropriation accounts. Perhaps the greatest benefit derived from this consolidation of appropriations was the fact that it facilitated presentation of budget estimates on a performance basis, as strongly urged by both Hoover Commissions.

Subsequent Developments¹⁴

Subsequent years brought further refinements and simplifications to the new Coast Guard budgetary administration system. August 1951 saw the inauguration of a monthly financial report. This monthly report presented for the benefit of managerial personnel cost summarizations for the latest month and for the current year to date compared with allocations and prior year data.

Several noteworthy developments occurred during 1953. District expenditure estimations were integrated with actual expenditures as recorded in district accounts, and several training courses in the fiscal area were made compulsory for all regular officers. Of more importance, however, was the promulgation of the Coast Guard Manual of Budgetary Administration. The stated purpose of this manual was to provide guidance for all Coast Guard personnel in the administration of funds and in the control of activities and plans affecting the obligation or expenditure of funds.

The following year important changes were made in the main budgetary programs. These changes and the reasons behind

¹⁴U.S., Secretary of the Treasury; Director, Bureau of the Budget; Comptroller General of the United States; Annual Progress Reports under the Joint Program to Improve Accounting in the Federal Government (1950-1959; Washington: U.S. Government Printing Office), passim. Except where otherwise documented.

them will be discussed in detail in Chapter V. Also in 1954 extension of the industrial fund principle to funding and accounting within the framework of the annual appropriation was made to bases and depots performing major maintenance and repair work. The purpose of this was to permit association of repair costs with budget estimates.

By 1955 the number of allotment accounts used by the Coast Guard had been reduced from 29 to 24. The effect of this reduction was more latitude and control in fiscal administration. The 1955 edition of Bureau of the Budget Circular A-11 (Instructions for the Preparation and Submission of Annual Budget Estimates) called for the submission of cost-type budget estimates together with the conventional presentation for fiscal year 1957 wherever agency accounting systems were capable of furnishing the necessary cost data.¹⁵ The stated purpose of this deviation from standard procedure was to give all echelons of budgetary review the opportunity to peruse actual cost-type budgets and compare them with the traditional budget presentation.

The generally favorable reaction to this dry-run cost-type budget for fiscal year 1957 together with the recommendations of the second Commission on Organization of the Executive Branch of the Government¹⁶ were undoubtedly contributory to Congress's enactment of Public Law 863 in 1956. Public Law 863 required that

¹⁵U.S., Bureau of the Budget, Instructions for the Preparation and Submission of Annual Budget Estimates, Circular A-11 (Washington: U.S. Government Printing Office, 1955), Section 76.

¹⁶The Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting (Washington: U.S. Government Printing Office, 1955), pp. 9-15, 36-38.

1. Accounting in the federal establishment be on an accrued cost basis
2. Budgeting be on a cost basis
3. Consistent classifications be used
4. Budget justification be on an organizational basis
5. Allotment structures be simplified.¹⁷

Passage of this act made the Coast Guard's new system for budgetary administration obligatory, rather than a progressive optional technique.

Also in 1956 a method of financing work orders through use of a clearing account in the Operating Expenses appropriation was adopted. With this device budgetary planning and payment of all costs became the responsibility of the officer authorizing the work to be performed. As a result of the adoption of this method, cost classifications were improved and more meaningful and realistic reports became available for management. During 1958 restrictions on district commanders and commanding officers of headquarters units making fund adjustments between allotment accounts were relaxed somewhat, although not so much as to jeopardize the level of administrative review necessary for proper management.

A concise description of the Coast Guard budgetary administration system as it operates today will summarize the evolutionary process that has been underway for the past thirteen years.

¹⁷U.S. Congress, An Act to Improve Governmental Budgeting and Accounting Methods and Procedures, Public Law 683, 84th Cong. 2d Sess., 1956.

Accrual Accounting -- The Coast Guard has a decentralized and integrated system of accounting under general ledger control that incorporates asset, liability, nominal, and budgetary accounts on an accrual basis. Inventories are under monetary control, and real property accounts have been established. A system of reports has been designed to meet the needs of all levels of management and statutory requirements. A basic feature of the accounting system is the accumulation of costs by individual operating units, such as ships or stations, and by service-wide programs, such as boat replacement and vehicle procurement. An internal audit program was established to provide management with continuous review for compliance with Coast Guard fiscal policy and procedures.

Cost-based Budgeting -- Coast Guard fund administrators compose their individual budget requests on the basis of prior year costs adjusted for changes in programs. The total Coast Guard budget request consists of summation of individual cost-based requests. When an appropriation is made, it is divided between administrators on the basis of their requests.

Synchronized Classifications -- The account and budget classifications used in the Coast Guard are one and the same. The accounting and budget classifications are synchronized with the organizational structure. All organizational units are grouped within budgetary activities. Each one of the primary activities has certain workload data which derive from the units within the activity. The accounting system develops costs for these organizational units making it possible to compare annual performance and annual costs by activity.¹⁸

¹⁸U.S., Bureau of Accounts, Fiscal Service, Report on Accounting Developments in the Treasury Department (Washington: Treasury Department, 1958), p. 32.

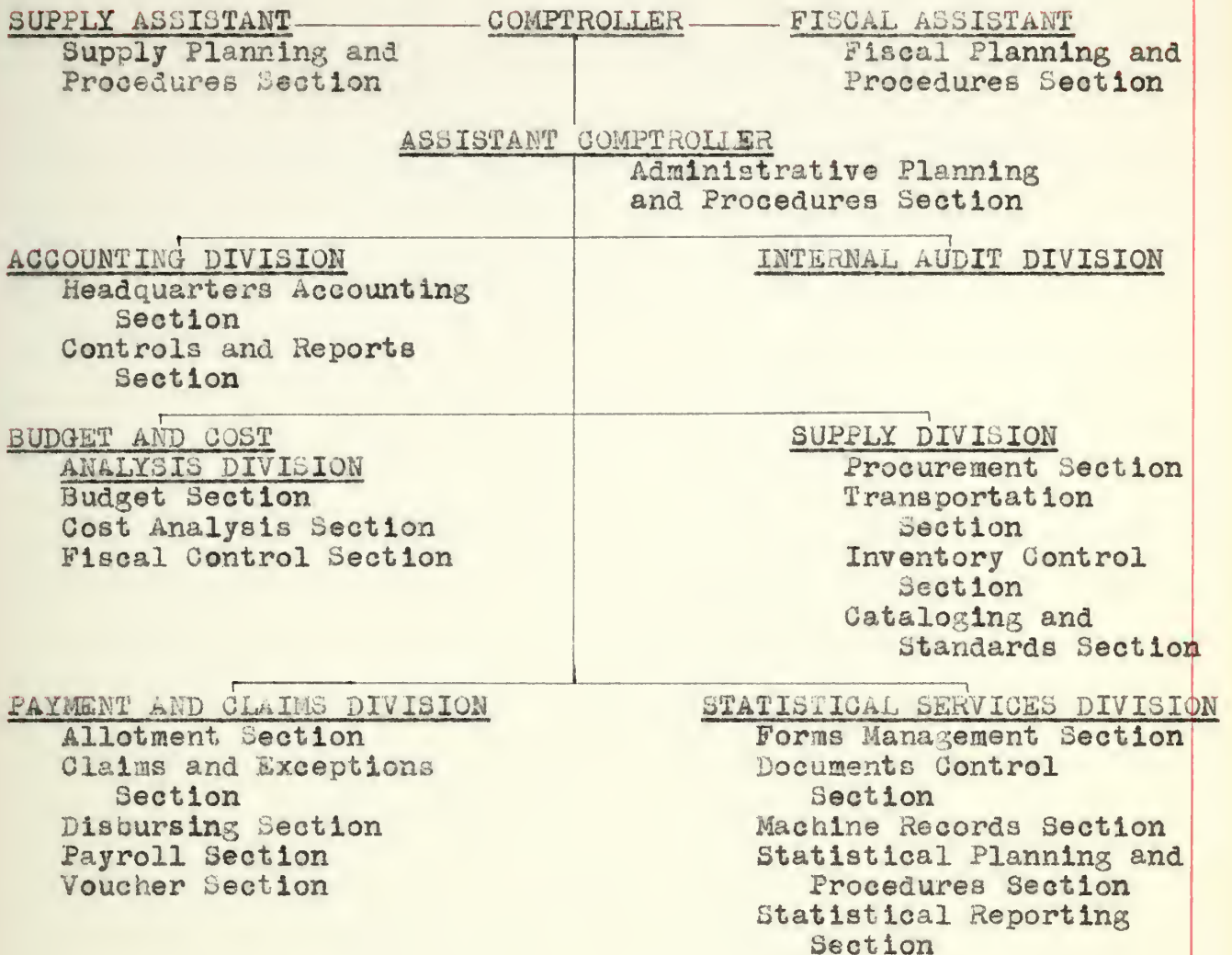
ORGANIZATION OF THE OFFICE OF THE COMPTROLLER¹⁹

FIGURE 1

¹⁹U.S., Coast Guard, Organization Manual, CG-229
 (Amend. 19; Washington: U.S. Coast Guard, 1950), pp. 2-29 through 2-38.

CHAPTER III

BUDGETARY PLANNING

The Financial Plan

One of the first recommendations Ebasco Services Incorporated came up with for improved financial management in the Coast Guard was for the development and maintenance of a base operating plan and a long range planning program. Planning, of course, is the forerunner of budgeting; in fact, a budget might be considered as a plan or a group of plans reduced to the common denominator of dollars. Mosher lists planning as the third principle of large scale governmental budgeting and goes on to say that "budgeting and program planning must be intimately and frequently if not continuously related . . . The need . . . is most emphatic where it is most difficult - in the agency which is operating in uncertainty and change."¹

Planning in the Coast Guard is closely integrated with the development of budget estimates. The basic planning instrument is the Financial Plan developed for each fiscal year. Through his

¹Frederick C. Mosher, Program Budgeting: Theory and Practice (Public Administration Service, 1954), pp. 6, 50.

approval of the Financial Plan the Commandant discharges his responsibility for requesting and later expending appropriations in the most efficient and economical manner in relation to the performance of authorized functions or activities, including formal modifications of the Financial Plan whenever necessary in the light of changing conditions or needs.²

More specifically, the Financial Plan is a formal document covering the administration of funds included in the formal budget requests and as appropriated by Congress for carrying out the public service required of the Coast Guard. For any given fiscal year the Financial Plan passes through several successive stages.

1. The Forecast Stage covers the consolidation of approved supporting plans for each appropriation and of approved budgetary requests prepared by each office responsible for administration of funds.

2. The Budget Stage covers revision of the Forecast Stage estimates as a result of review in the Treasury Department.

3. The Allowance Stage covers revision of the Budget Stage based on the Bureau of the Budget review of Treasury estimates.

4. The Operating Stage covers revision of the Allowance Stage to come within the amount actually appropriated by Congress.³ Actual detailed planning is given formal documentation through the many supporting plans that make up in aggregate the Financial

²U.S., Coast Guard, Manual of Budgetary Administration, CG-255 (Change 9; Washington: U.S. Government Printing Office, 1953), p. 1-1.

³Ibid., pp. 1-2 through 1-4.

Plan. There is at least one supporting plan for each of the four Coast Guard appropriations.

The Operating Expenses budget estimate is backed up by the Operating Plan and the Personnel Plan. The Operating Plan is a formal document listing by number and type; shore units, floating units, and aviation units that are planned or approved for operation during the period covered by the plan. The Office of Operations is responsible for the Operating Plan and must prepare detailed justification for all changes to the list. The Personnel Plan, which must be closely coordinated with the Operating Plan, is the responsibility of the Office of Personnel. The following four documents, when approved, make up the Personnel Plan.

1. Military Personnel Billet Plan - showing distribution of military personnel by rank and type of unit.
2. Military Personnel Grade Distribution Plan - showing the number in each pay grade by months.
3. Classified Civilian Personnel Distribution Plan - showing the number in each pay grade, class of unit, and appropriation chargeable.
4. Wage Board Civilian Personnel Distribution Plan - showing the number in each class of unit, appropriation, and sub-head chargeable.⁴

Generally speaking, planning in the Coast Guard is not complicated in the same degree by strategic considerations so troublesome to the agencies within the Department of Defense. Program changes reflected in the Coast Guard Operating or

⁴Ibid., pp. 1-5 through 1-7.

Personnel Plans can usually be costed out in a straight-forward manner by the Cost Analysis Section at Headquarters.

The Advance Construction Plan

The Acquisition, Construction, and Improvements budget estimate is supported by the Annual Construction Program, a formal document approved by the Commandant giving a brief description and estimated cost of projects to be accomplished through the use of appropriated funds.

The planning behind the Annual Construction Program is a continuing process that starts for the most part in the field. Operating and administrative units are required to submit to the Program Analysis Division at Headquarters plans for such projects as are from time to time considered necessary to carry out the mission assigned. The proposed project is worked up by the submitting unit in standard format containing a serial number, priority, detailed description, thorough cost estimate, and complete justification. The following are mandatory criteria for justification:

1. Operational necessity
2. Clear benefits to be derived
3. Specific bad effects if postponed
4. Evidence that project is to meet normal needs
5. Reasonable relationship of costs to benefits

When a properly executed project request is received at Headquarters, the Chiefs of both Operations and Engineering are required to review the project. On the recommendations of the reviewers the Chief, Program Analysis Division will either approve

the project or require that the originating unit revise the project to incorporate certain operational or engineering features.⁵

A file of approved but unfunded projects is maintained by the Program Analysis Division. This current file is known as the Advance Construction Program. Each project included in the program is reconfirmed annually by the originating unit. The stated purpose of the Advance Construction Program is:

1. To develop a schedule of items of acquisition, construction, and improvement of Coast Guard facilities which will best fulfill operational requirements.

2. To accumulate complete information concerning all proposed items of acquisition, construction, and improvement on which to base selection of projects for inclusion in budget requests for appropriations.

3. To provide a backlog of well considered and thoroughly substantiated construction projects for accomplishment whenever funds become available.⁶

Formulation of Annual Plans

The Annual Construction Program is the budgetary implementation of the Advance Construction Program. Each year all projects in the Advance Construction Program are reviewed by cognizant Headquarters divisions and a recommendation is made of projects for which it is felt funding should be requested in the Forecast Stage of the Financial Plan. This process is the basic

⁵Ibid., pp. 2-19 through 2-24.

⁶Ibid., p. 1-13.

planning operation in the Coast Guard. It is at this point that competing alternatives and consequences must be weighed. Criteria, other than operational necessity, that must be considered are:

1. Sufficiency of detailed justification
2. Relationship between cost and benefit
3. Lead time required
4. National policy
5. Request limitations imposed by higher authority.⁷

Upon approval of the Annual Construction Program by the Commandant, the Engineer-in-Chief is required to submit a Classified Civilian Personnel Distribution Plan for Acquisition, Construction, and Improvements based upon the Annual Construction Program. This supplemental personnel plan is revised as necessary at each stage of the Financial Plan and is consolidated by the Program Analysis Division into the over-all Classified Civilian Personnel Distribution Plan.

Preliminary program planning for the Operating Expenses and Reserve Training Appropriations is carried out at Headquarters through the medium of annual program changes. The Program Analysis Division makes an annual "Call for Program Changes." In compliance with this directive subhead administrators and other cognizant offices itemize forecasted program changes involving an increase or decrease in personnel, materials, or services for the budget year and each of the two subsequent fiscal years. Each program change must be substantiated by a description of the change; justification, including explanation of why any

⁷Ibid., pp. 2-25 and 2-26.

increases cannot be absorbed; a listing of personnel, materials, and services required; and a detailed breakdown of the costs or savings involved.⁸

During the Operating Stage of the Financial Plan actual cost performance is compared with planned costs and results published to all offices concerned by means of a monthly Financial Report compiled by the Budget and Cost Analysis Division in the Office of the Comptroller.

⁸Ibid., pp.1-21 and 1-22.

CHAPTER IV

EXAMINATION OF THE COAST GUARD BUDGET REQUEST FOR FISCAL YEAR 1961

Let us now turn to an examination of the latest Coast Guard budget request, that for the fiscal year ending June 30, 1961. It will be noticed that the operation of the Coast Guard is financed through four appropriations:

1. Operating Expenses
2. Acquisition, Construction, and Improvements
3. Retired Pay
4. Reserve Training.

This is as simple an appropriation structure as will be found for an agency with a comparable degree of program complexity.

The Operating Expenses section is broken down into Direct Programs by activity as follows:

1. Vessel operations
2. Aviation operations
3. Shore stations and aids operations
4. Repair and supply activities
5. Training and recruiting facilities
6. Administration and operational control

7. Other military personnel expense

8. Supporting programs.

Reimbursable Programs under Operating Expenses are:

1. Operation of ocean stations (Navy)

2. Miscellaneous services to other accounts.

Summations of Direct and Reimbursable Program costs are adjusted for expenditures accrued from prior years and for unpaid, undelivered orders and then totaled. This total adjusted Operating Expenses estimate is then reduced by the amount of advances and reimbursements anticipated to arrive at the total requested appropriation.

Estimates for the three remaining appropriations are set forth by activity programs as follows:

Acquisition, Construction, and Improvements:

Direct Programs

1. Vessels
2. Aviation facilities
3. Shore station and navigational aids
4. Repair and supply facilities
5. Training and recruiting facilities

Reimbursable Programs

1. Loran (Department of Defense)

Retired Pay:

1. Enlisted men
2. Commissioned officers
3. Warrant officers
4. Former Lighthouse and Lifesaving Services
5. Reserve personnel
6. Survivors' benefits

Reserve Training:

1. Trainee expense
2. Operation of training facilities
3. Construction of training facilities
4. Administration

Following the appropriations section of the budget request is a section on intragovernmental funds. Included under this are operating statements, historical and pro forma, for the Coast Guard Supply Fund and the Coast Guard Yard Fund.

Included in each section and immediately following the tabular presentation of cost data are short narratives and selected workload statistics delineating the area covered by each of the activity programs. Following this descriptive material in each section is the traditional object classification breakdown.¹

¹U.S., Bureau of the Budget, The Budget of the United States Government for the Fiscal Year Ending June 30, 1961 (Washington: U.S. Government Printing Office, 1960), pp. 827-35.

CHAPTER V

MAJOR PROBLEMS IN THE DEVELOPMENT AND ADMINISTRATION OF THE COAST GUARD ACTIVITY BUDGET

The Performance Budget Concept

The evolution of the Coast Guard's activity type budget has not been smooth sailing all the way. Many problems have arisen. Some have been solved; some still persist; and some, characteristic of the size and type of our governmental institutions and methods, will probably never be solved. Perhaps the knottiest problem had to do with implementation of the performance budget concept.

The fact that the performance budget concept is firmly entrenched in governmental theory is evidenced by the works of many renowned students of government, by the recommendations of both Hoover Commissions, and by legislative decree. The 1949 amendment to the National Security Act and the Budget and Accounting Procedures Act of 1950 both call for performance-type budget presentations. In practice, performance budgets have been successfully employed for some fifty years in municipal and state governments, but for lesser periods and to a lesser extent in the federal government. The difficulty with performance budgets at the federal level seems to be first, definition of programs and second, measurement of work accomplished and performance.

According to Seckler-Hudson a performance budget focuses attention on the ends to be served by government by showing the costs of governmental functions and programs.¹ Clearly then, the first step is to delineate the various functions and programs.

Definition of Programs

It will be recalled from Chapter II that Ebasco Services Incorporated recommended for the Coast Guard that operating costs be accumulated on a functional basis. The functions recommended by Ebasco, probably suggested or at least concurred in by Coast Guard personnel, were Assistance and Law Enforcement, Aids to Navigation, and Military Readiness.² Overhead costs were to be allocated appropriately among the three functions. Recall also the costing system originally proposed by the Coast Guard. Operating costs were to be accumulated for each operating unit and then summarized into one of two functions, Assistance and Law Enforcement or Aids to Navigation. Costs of supporting units were to be prorated between the two major functions.

The system finally adopted, accumulated costs for each unit but summarized them into five major functions as follows:

1. Search, Rescue, and Law Enforcement
2. Aids to Navigation
3. Ocean Stations
4. Port Security
5. Other Costs.

¹Catheryn Seckler-Hudson, "Performance Budgeting in Government." Advanced Management, XVII, No. 3 (March, 1953), p. 5.

²Ebasco Services Incorporated, Study of United States Coast Guard (New York: Ebasco Services Inc., 1948), p. 9.

Supporting unit costs were reflected in Other Costs, which at appropriate intervals was prorated into the four operating functions. This resulted in all operating costs of the Coast Guard being reflected in four broad operating programs - programs which showed the costs of carrying out the several missions of the Coast Guard. This presentation would seem to fit the formula for a performance budget pretty well, but let us explore further.

For the fiscal year ending June 30, 1952, the first completed under the new accounting system, operating unit totals were as follows:

Search, Rescue, and Law Enforcement	\$46,251,661
Aids to Navigation	33,419,512
Port Security	10,077,622
Ocean Stations	16,529,122
Total Direct Programs	<u>\$106,277,917</u>

Prorated among these direct programs was Other Costs amounting to \$70,130,313 or slightly less than 40 percent of the total operating costs for the year.³ When these four broad functions are considered in light of the multipurpose character of most Coast Guard operating units, it becomes apparent that distribution of direct costs of multipurpose operating units to the four broad functions must be made on a highly arbitrary basis. Recall from Chapter I the case of the versatile buoy-tender.

It now appears that the broad functional cost summarization supposedly supported in some detail by the cost accrual system in reality contains an indeterminable amount of arbitrary cost allocations. Exact cost data accumulated at no little expense are confounded with rank estimates in varying amounts.

³U.S., Coast Guard, Financial Report, June, 1952
(Washington: Coast Guard, 1952), p. 9.

The result is the loss of "clean" costs as the exact data take on all the vagaries of the arbitrary allocations.

Measuring Performance

A cost-based budget is built basically from historical costs as accrued in prior years and adjusted for expected changes in the level of operations for the budget year. This brings us to the problem of work and performance measurement. If historical costs are to be useful in forecasting the effect of program changes, there must be a high degree of correlation between costs and the level of operations. Unfortunately, the great majority of Coast Guard operations do not lend themselves to meaningful, reliable measurement. In search and rescue operations, for instance, hundreds of thousands of dollars may be expended on an unsuccessful search. The effort must be made, and there is no way of knowing beforehand what the outcome will be. How, then, can this effort be measured? Similarly, how can law enforcement effort be measured? There is no practical yardstick. Even in the mundane area of aids to navigation a tender working buoys in exposed positions cannot be measured by the same scale used on a tender working in sheltered waters. These examples illustrate the problem - Coast Guard effort and result are not strictly correlative with cost.

Official concern with this whole problem of implementing the performance budget concept was summed up in the following quotation.

A sound activity classification can be extremely useful in budget administration. It encourages planning and estimating in the light of the major issues concerned. For some agencies and appropriations, these

issues will mainly involve matters of program - the purposes or major functions involved; in other instances, administrative matters will be of great importance - the organization of the agency and the distribution of work among its parts.

An activity classification is also valuable for budget presentation, especially if its categories reflect purposes fulfilled or services rendered. The object classification of obligations focuses attention on the things for which money is being spent. An activity classification, on the other hand, is more likely to direct attention to what is being obtained with the use of the money.

The Coast Guard, since 1949, has used a functional breakdown for the purpose of budget presentation, the major functions being (1) Search, Rescue, and Law Enforcement, (2) Operation of Aids to Navigation, (3) Operation of Ocean Stations for Meteorological and Other Services, and (4) Port Security. Because of the multiple functional activities of many units and the large indirect expense attributable to all four functions, a very arbitrary spread of costs was necessary, and the budget could not be directly compared with operating results.

The Coast Guard also uses an activity classification based on classes of operating and supporting units such as types of vessels, lifeboat stations, and unmanned aids. Although this system will not lend itself completely to a reflection of purposes fulfilled or services rendered, it is considered that for an organization based largely on port of duty rather than production, the unit analysis most closely reflects what is being obtained with money spent. Such a classification can be very closely tied in with accounting to permit reasonably accurate comparison of budgeted plans with results obtained.⁴

In 1953 the Coast Guard proposed a new schedule of activities for the Operating Expenses budget estimate. Inter-agency correspondence on the subject set forth the purpose of the proposed change as follows:

1. To permit a more realistic presentation of the Coast Guard's appropriation requirements.

⁴U.S., Coast Guard, Manual of Budgetary Administration, CG-255 (Change 9; Washington: U.S. Government Printing Office, 1953), pp. D-22 and D-23.

2. To cut down substantially on the arbitrary proration of indirect expense.

3. To provide better accounting support for budgetary data.⁵

Having received executive approval of the proposed change, the Coast Guard embodied the new format in the budget request for fiscal year 1955. The change was rationalized before the House Committee on Appropriation and accepted. Ever since, budget estimates have been arranged according to the activity programs indicated in Chapter IV. Although these activity programs do not indicate at a glance what work is accomplished by the Coast Guard, they are backed up by tight cost data which show how the work is accomplished. Supporting narrative material on each activity program indicates the various types of operations carried on by units in each activity.

Lead Time

Another serious problem with any type budget in the federal government is caused by the long lead time inherent to the process. In particular, a cost-type budget takes its departure from costs accrued in the preceding budget period. These costs are then adjusted for changes in programs and for resources expected to be carried over. The federal budget process requires that the Coast Guard begin budget preparation some eighteen months before the start of the budget year. This long lead time requirement raises two primary difficulties.

⁵Letter from Budget Officer, Treasury Department, to Director, Bureau of the Budget, June 3, 1953.

The first difficulty is the necessity for accurately forecasting budget year workload. To a great extent Coast Guard operations are directly affected by the elements - a hard winter, a busy hurricane season, for example. The many variables that cannot be predicted two or three years in advance make budgetary planning rather vague in many areas.

The second difficulty is caused by the fact that at the time work is commenced on a specific fiscal year budget the most recent cost data available are for the fiscal year three years prior. Even though fresher cost data (budget year minus two) become available during the process, the budget is firmed up for the President's presentation to Congress with no more than several months of current year costs available.⁶

Finally, there is the problem with cost-type budgets caused by the interrelationships among the level of agency operations, resources carried over, and the actual amount appropriated. In a cursory examination of a cost-type budget, it is easy to lose sight of the fact that program costs will be met from two sources; funds appropriated by Congress and other resources available. This fact makes it impossible to reach a significant conclusion by comparison of funds appropriated from year to year. All sources must be considered.

⁶Committee on Governmental Accounting, Cost Control in the Federal Government (Washington: District of Columbia Institute of Certified Public Accountants, 1958), p. 9.

CHAPTER VI

CRITICISM OF THE COAST GUARD ACTIVITY BUDGET

Although the Coast Guard is a relatively small agency in the vast organizational complex of the executive branch of government, the management of the Coast Guard is no less responsible for effective administration of its annual quarter of a billion dollars than is the management of the Air Force for its eighteen billion. It behooves the Coast Guard to use the best financial management techniques available in the administration of appropriated funds. The Coast Guard activity budget is the result of a continuing improvement program in financial management techniques.

One of the chronic problems with the federal budget process is the growing complexity of the President's budget document. Knowledgeable opinion holds that changes must be made to enhance the usefulness of the budget as a management tool. On a piecemeal basis, which is the only practical approach, simplification of the component parts of the federal budget contribute to the clarity and meaningfulness of the whole.

The budget presentation adopted by the Coast Guard in conjunction with revision of the accounting system classified

proposed expenditures under broad functions indicative of the broad areas of Coast Guard responsibility. Presentation in this manner gave all levels of review as well as the general public a clear indication of what services would be provided with the funds requested. The only trouble with this method of presentation, as desirable as it may have been from the performance budget point of view, was that cost accumulations under the new cost accounting system were by individual operating units, most of which were multifunctional. For this reason distribution of costs to the broad functional classifications was necessarily the result of a highly arbitrary process of allocation.

In order to remove the necessity for making the attendant value judgments, the format for presentation of budget estimates was changed from functional classifications to activity programs such as Vessel Operations or Training Facilities. These activity programs are the logical categories in which to sum up costs as accrued under the installed cost accounting system, but they fail to show the costs of the specific services rendered by the Coast Guard. Instead, they show the costs of operation of the various organizational and operational units that in aggregate render the services. For consideration of benefit derived from costs incurred this method of presentation is not much more illuminating than the traditional but widely criticised object classifications.

The redeeming quality of the activity program budget presentation for the Coast Guard is that the supporting cost data is well-grounded, and for this reason the activity programs

must be maintained. However, I feel that an important element of perspective was lost when the broad functional categories were abandoned. In order to cultivate this important overall perspective, which I feel is a requirement for intelligent budgetary review, a preface or addendum to the formal budget estimates should furnish for the benefit of reviewers an admittedly arbitrary breakdown of costs into the broad major functions under which Coast Guard responsibilities are discharged. Necessary qualifications would have to accompany this supplemental presentation to indicate the basis and assumptions for the allocation of multi-purpose operating costs among the major functions.

The functions I propose to define the major areas of Coast Guard responsibility are Law Enforcement, Marine Safety, and Military Readiness. Under each of these major functions, subfunctions should be indicated such as would specifically delineate the various facets of endeavor comprising the major functions. A subsidiary implied mission of the Coast Guard is to maintain the requisite administrative and supporting organization to discharge the three primary responsibilities. Costs of administrative and supporting units should be summarized under a fourth major function to be called Administration and Support.

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